

# MORGAN HILL, CALIFORNIA



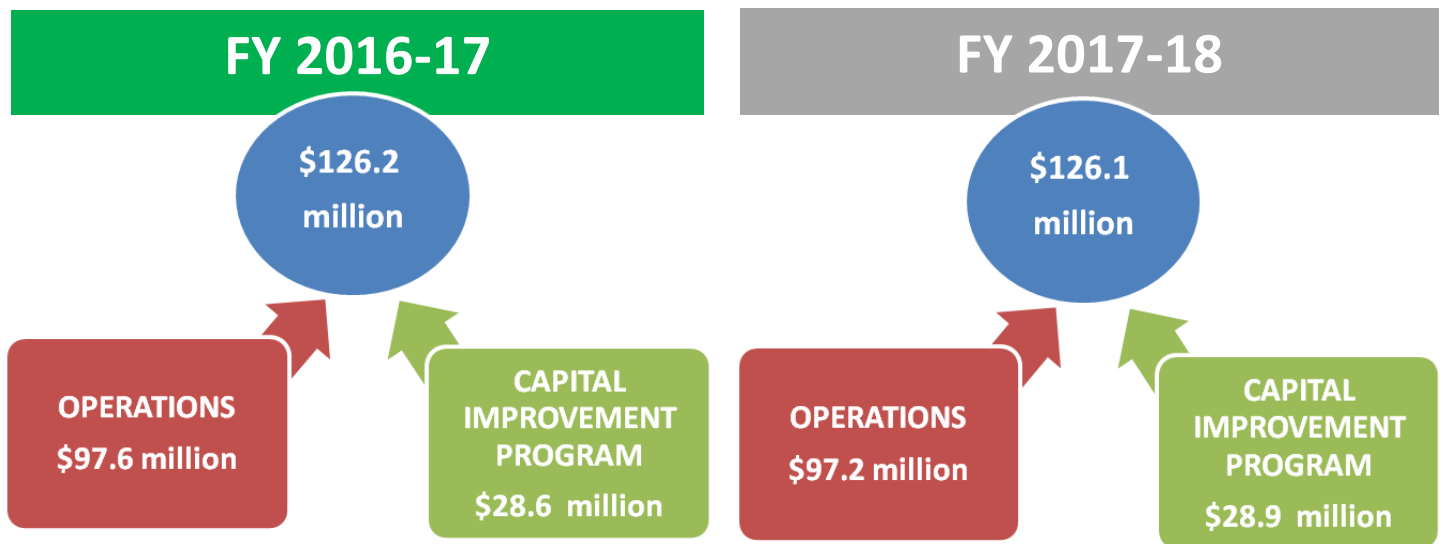
## BUDGET IN BRIEF



Fiscal Years 2016-17 & 2017-18

# Adopted FY 2016-17 & FY 2017-18 Budget

The City of Morgan Hill's Budget in Brief is intended to provide you with information about your City's Budget adoption process. The City's biennial budget is prepared much like a household spending plan. While a family might plan for such expenses as housing, food, clothing, transportation, or medical bills, the City's focus is for police and fire protection, parks, recreation, water and sewer systems, housing, economic development, roads, building maintenance, and much more. City employees worked hard to recommend a budget that aligns resources and proposes quality of life enhancements that are consistent with the City Council's and community's priorities, while maintaining fiscal responsibility. In total, the recommended FY 2016-17 (July 1-June 30) budget is **\$126.2 million** and the FY 2017-18 budget is **\$126.1 million**.



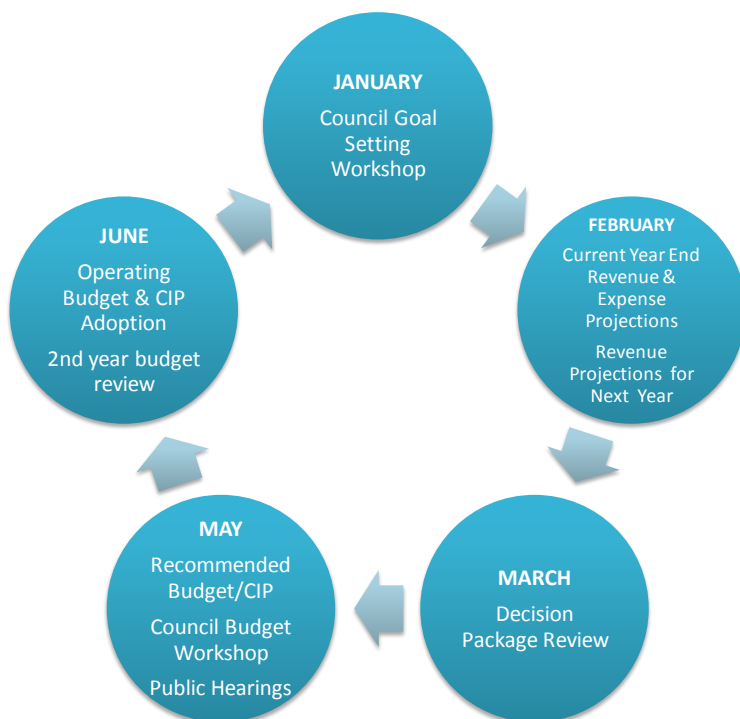
## FY 2017-22 Capital Improvement Program Summary

Project Categories	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Totals
1 Parks & Recreation	\$6.8	\$4.0	\$5.1	\$1.7	\$2.0	\$1.1	\$20.6
2 Public Facilities	\$0.3	\$3.3	\$0.0	\$0.0	\$0.0	\$0.0	\$3.6
3 Storm Drainage	\$0.1	\$0.2	\$2.5	\$2.9	\$0.3	\$0.2	\$6.1
4 Streets & Roads	\$5.0	\$5.2	\$2.6	\$1.0	\$1.6	\$1.0	\$16.5
5 Wastewater	\$9.5	\$15.6	\$6.0	\$4.5	\$4.7	\$4.7	\$45.0
6 Water	\$7.0	\$0.5	\$1.2	\$3.0	\$1.3	\$2.7	\$15.7
<b>Totals</b>	<b>\$28.6</b>	<b>\$28.9</b>	<b>\$17.4</b>	<b>\$13.1</b>	<b>\$9.8</b>	<b>\$9.7</b>	<b>\$107.4</b>

in millions

# 2 Year Budget Cycle

On June 15, 2016 the City Council adopted the City's first year of the transition to a two-year operating budget cycle and six year Capital Improvement Program. The adopted biennial budget consists of two separate budgets, Fiscal Year 2016-17 & Fiscal Year 2017-18.



The budget process begins in January each year when the City Council conducts a two-day workshop to set its priorities, goals, and strategies for the organization and community. City teammates then prepare the budget to advance these priorities.

New this budget cycle, the City obtained feedback from residents about satisfaction and priorities for City services. Residents identified the following quality of life service priorities:

- Rapid response to 9-1-1 emergencies
- Maintaining the number of police officers on neighborhood patrols
- Maintaining crime prevention and investigation programs
- Maintaining fire protection
- Maintaining City streets and roads, and repairing potholes
- Maintaining the long-term financial stability of the City

The Council's and community's priorities are the guiding principles for developing the biennial operating budget and capital improvement program with the goal of enhancing City services.

During the months of May and June, the City Council reviews the recommended budget during an all day workshop and formal public hearing. Public requests and concerns are addressed at this time and any Council initiated recommendations are incorporated into the final budget document. The finished product is then adopted by the Council and is designed to make the best, most efficient use of the money entrusted to the City by the Morgan Hill community. In the fourth quarter of the FY 2016-17 budget, the Council will be provided an update on revenue assumptions, fund balances, and possible amendments to the FY 2017-18 annual budget.

## New Quality of Life Enhancements:



Invest \$2.1 million over 2 years for building and equipment replacement projects

Include \$6M over 5 years in the Capital Improvement Program for agriculture preservation

Increase the General Fund investment for street improvement projects - \$250,000 annually for 3 yrs

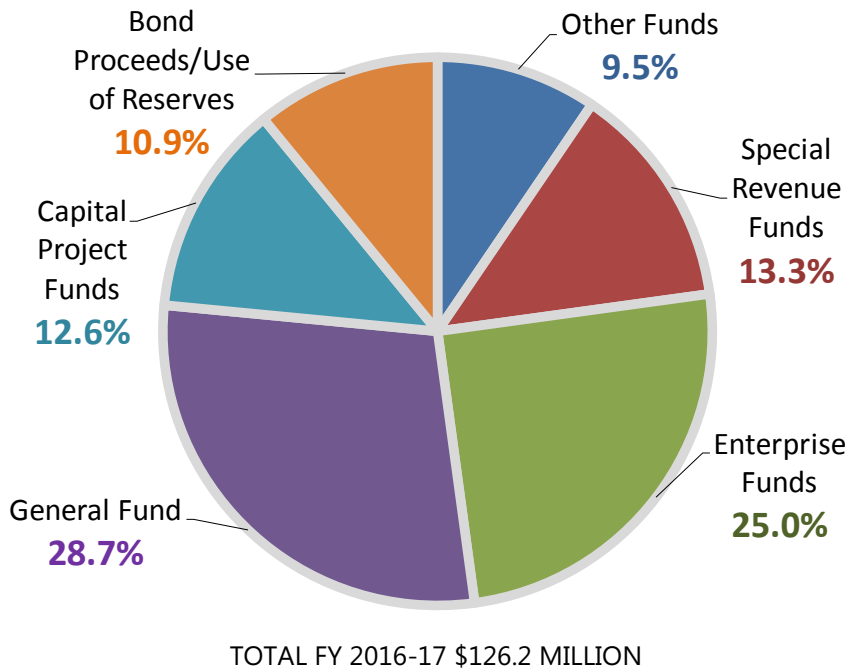
Hire a full-time Public Safety Dispatcher - \$158,000 ongoing

Investment in City's Information Services infrastructure - \$565,000 over 2 years

Conduct a comprehensive internal and external Communications Assessment to evaluate the effectiveness of our current communication efforts - \$25,000

Support Downtown Investment Strategy and provide additional park spaces by initiating the construction of 3 Downtown parks - \$4,051,000

# Where Does Your City's Money Come From?

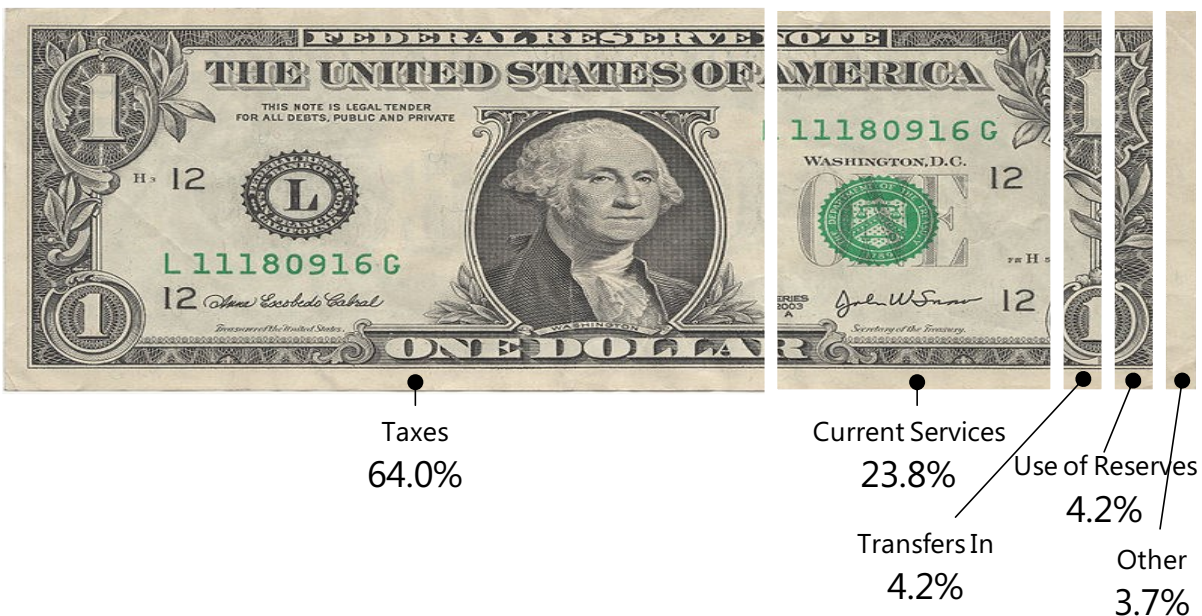


Income for the City is generated from taxes, building permit fees, business licenses, recreation memberships, sewer and water sales, and more. The revenue is deposited into different funds, similar to bank accounts. Unlike personal bank accounts where funds can be transferred from one to another, the City must comply with strict laws that require money be maintained in separate funds and spent for specific purposes. For example, the City may not raise water rates to pay for police services. Revenue that is not reserved for a specific purpose, like taxes, is directed into the General Fund, which pays for the general operations of the City.

## GENERAL FUND

Most of the general fund money comes from the following primary sources: property tax, sales tax, and hotel taxes. Current services is made up of recreation fees for service and other service fees. Since many of these revenues are sensitive to economic conditions, the City's economic development efforts are focused on increasing jobs and expanding the tax base.

### General Fund Revenue Sources \$37.8 million



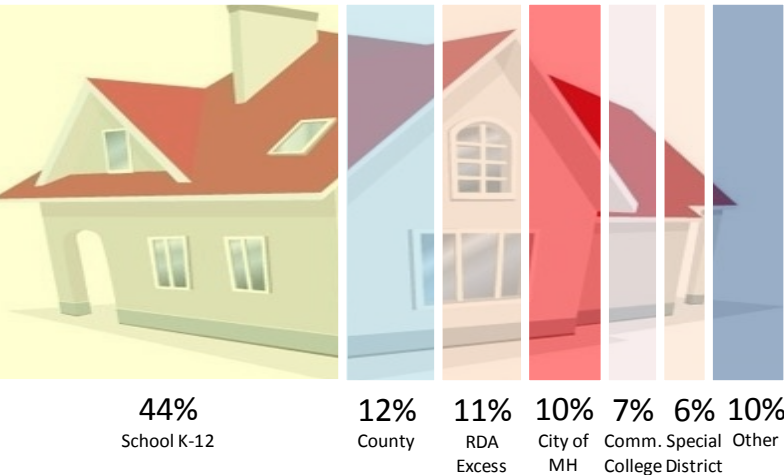


# Where Does Your City's Money Come From?

## PROPERTY TAX

Property tax is a tax on real property and tangible personal property based on the property value. The State Constitution limits the real property tax rate to 1% of the property's assessed value plus rates imposed to fund indebtedness approved by the voters. A majority of property taxes supports local schools. Morgan Hill's share of the 1% is equivalent to 10 cents for every \$1.00 collected from property taxes. In FY 16-17, property tax is projected at \$10 million or 28% of the total General Fund revenues.

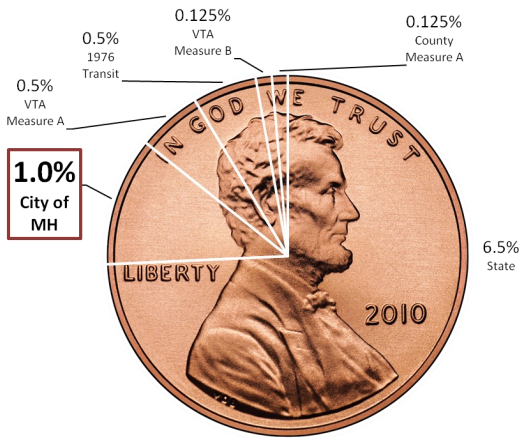
Morgan Hill Property Tax 1% Distribution



## SALES TAX

Sales tax is imposed on retailers for selling tangible personal property in California. The sales and use tax rate for Santa Clara County is 8.75% of which Morgan Hill's share is 1%. Revenues from sales tax are expected to reach \$8.8 million in the coming fiscal year, or 24% of the total General Fund revenue projected. It is the second largest revenue source for the City's general fund.

Allocation of Sales Tax Rate  
(Current Sales Tax Rate 8.75%)



## SPECIAL REVENUE FUNDS

The City also receives money from a variety of other sources, which can only be used for specific purposes or projects. These sources include the collection of developer fees, gasoline taxes, Community Development Block Grant monies, and more. Money collected from development fees are restricted to costs associated with processing building, engineering and planning applications. Gasoline taxes must be used to pay for road improvements and repairs, and cannot be used on general City services. In FY 16-17 special revenue funds are projected at \$16.8 million.

# Where Does Your City's Money Come From?

## WATER AND WASTEWATER FUNDS

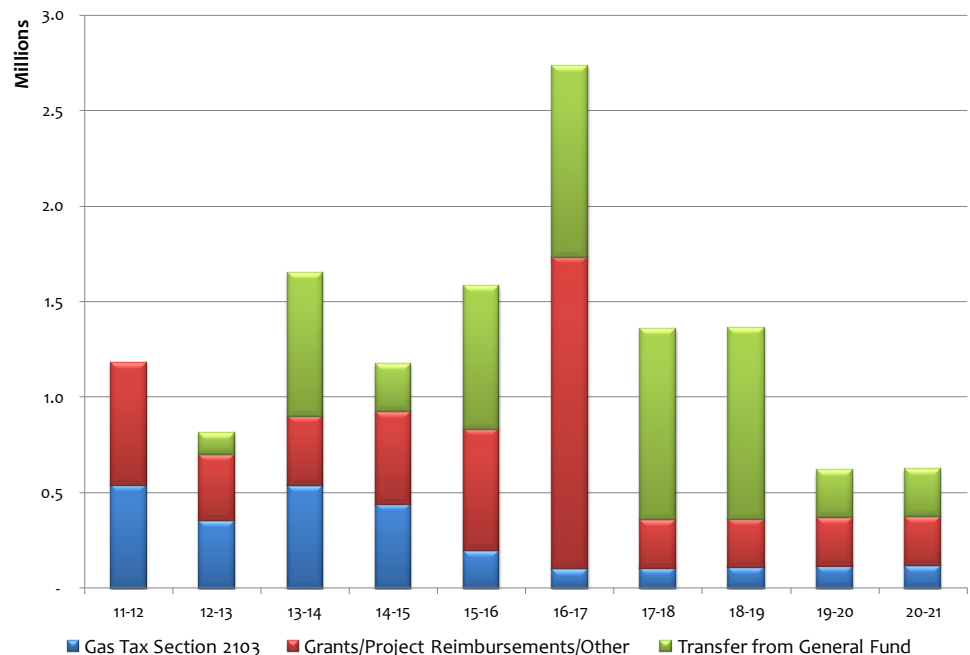
Water and Wastewater are both Enterprise Funds and account for operations that are financed and function like a private business. Separate funds are established for specific purposes and the cost to provide the service to the public is paid with revenues generated by the same fund. For instance, money collected from customers for their water consumption goes to purchase the water from the Water District and towards the maintenance of the infrastructure that delivers the water to your home.



## STREET IMPROVEMENT FUNDING SOURCES

The City's street improvement projects are funded from 3 primary sources, 1) gas taxes, 2) grants, and 3) transfers from the General Fund.

As depicted in the chart, gas tax has sharply declined and is anticipated to remain at low levels for the near future. As a result, fewer gas tax resources are available. To address this high priority area, the City Council will strategically invest \$1 million annually each of the next three years from the General Fund. Even with this increased General Fund investment, the financial resources for street improvements are insufficient.



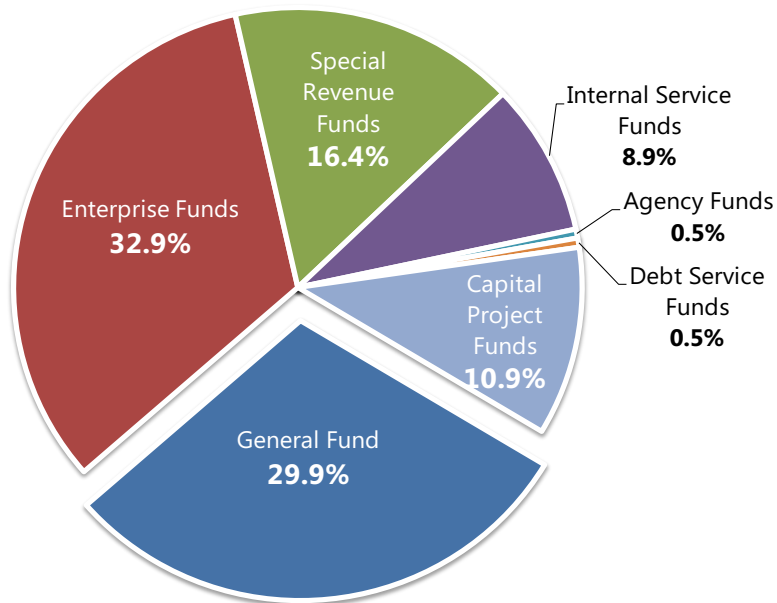
## CAPITAL PROJECT FUNDS

**CIP for 2017-2022 is \$107.4 million**

Morgan Hill has a wide variety of funding sources for CIP projects; some steady and predictable, while others are dependent on outside agencies. New development in Morgan Hill, be it residential or commercial, is required to pay impact fees to the City, which go towards infrastructure that will be needed as the City grows. Impact fees pay for the impact the new development's presence will have on the City. New development pays the following impact fees; streets, water, sewer, drainage, police, fire, parks, library, and public facilities. These impact fees can only be used to build infrastructure and facilities and cannot be used for ongoing maintenance or operations. Other CIP funding sources include grant monies and bond proceeds.

# Where Does the Money Go?

The FY 2016-17 citywide expenditure budget amounts to **\$126.2** million. As depicted in the pie chart below, the **largest portion** of expenditures support City Utilities, which deliver water to residents and businesses and treats the wastewater.



The **second** largest expense is attributable to the General Fund (\$37.8 million), which primarily funds police, fire, parks and street maintenance, economic development, recreation and community services, all of which contribute to the quality of life of our community as well as internal support functions such as Finance, Human Resources, City Clerk, and Legal Services.

The **third** largest expense is for special revenue funds which include the costs associated with processing building, engineering and planning applications, affordable housing efforts, environmental programs, general plan updates, and the Successor Agency.

The City Council has discretion on how to spend \$25.8 million of the \$37.8 million in General Fund revenues. In contrast, non-discretionary funds are funds that are collected and can only be used for that exact purpose, such as Centennial Recreation Center/Aquatics Center membership.

## General Fund Discretionary Expenses

**\$25.8 million**



### For More Information:

The City of Morgan Hill's Recommended Operating and Capital Improvement Program Budget document can be found on the City's website at <http://www.morgan-hill.ca.gov/463/Budget>

The entire budget document is also available at City Hall and the Morgan Hill Public Library. For more information about the City of Morgan Hill Budget, please contact the Budget Manager at [Monica.Delgado@morganhill.ca.gov](mailto:Monica.Delgado@morganhill.ca.gov)